

Hilcorp Alaska, LLC

DEPARTMENT OF
NATURAL RESOURCES

JUL - 2 2013

COMMISSIONER'S OFFICE
ANCHORAGE

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July 2, 2013



Mr. Dan Sullivan, Commissioner
Alaska Department of Natural Resources
550 West 7th Avenue, Suite 1260
Anchorage, Alaska 99501-3557

Re: Proposal to subscribe ADLs 18731 and 392193 into the Trading Bay Unit

Dear Commissioner,

Pursuant to 11 AAC 83.328(b), Hilcorp Alaska, LLC ("Hilcorp"), as sole working interest owner and operator of both the Trading Bay Field and Trading Bay Unit, hereby requests the Department of Natural Resources ("DNR") expedite our request to subscribe the above-referenced leases into the Trading Bay Unit.

In relevant part, 11 AAC 83.328(b) states: "*Where authorized by lease, the commissioner will, in his discretion, require a state lessee or any assignee of interest in a state lease to subscribe to a unit agreement.*" In turn, Section 32 of both ADL 18731 and 392193 expressly authorize DNR to take the requested action.

Unitization. Whenever determined and certified by Lessor to be necessary or advisable in the public interest for the purpose of properly conserving the natural resources of any oil or gas pool, field or like area or any part thereof [...] Lessor may unite with other leases of Lessor [...] in collectively adopting and operating under a cooperative or unit agreement for the development or operation of the pool or field or like area or part thereof. Lessee shall within thirty days after demand by Lessor subscribe to such cooperative or unit agreement, which agreement shall be reasonable and shall adequately protect all parties in interest including Lessor [...]

We believe the Commissioner has the authority to compel the abovementioned leases to the Trading Bay Unit. However, in the event the DNR determines it lacks the authority necessary to take the requested action under 11 AAC 83.328(b), Hilcorp proposes to expand the Trading Bay Unit pursuant to 11 AAC 83.306 (application for unit approval) and requests DNR immediately issue the associated public notice otherwise required by 11 AAC 83.311(a) (public notice).

Under either method, the proposed unitization concept readily meets the criteria of 11 AAC 83.303(a) (pubic interest criteria), as it will:

- (1) Promote the conservation of all natural resources, including all or part of oil and gas pools common to both the Trading Bay Field and Trading Bay Field;

- (2) Promote the prevention of economic and physical waste through reduction of administrative and regulatory burdens for both DNR and AOGCC, while maximizing efficiency of Hilcorp's exploration, development and operational activities; and
- (3) Provide for the protection of all parties of interest, namely the State of Alaska, as there are no other correlative rights at issue.

Furthermore, consolidation of ADL's 18731 and 392193 into the Trading Bay Unit will maximize administrative and operational efficiencies for both the State of Alaska and Hilcorp and therefore reduce economic and physical waste. This conclusion is readily apparent when considering all factors otherwise required by 11 AAC 83.303(b), including:

- (1) Environmental Costs and Benefits: The proposed action will benefit the environment by allowing consolidation of infrastructure and facilities at the Trading Bay Production Facility ("TBPF"). If the proposal is rejected, Hilcorp will be required to install duplicative infrastructure and operational systems to test and produce newly discovered natural gas from the Monopod Platform. In the short-term, such delays will result in waste (and therefore royalties) and operational redundancies, including increased potential for flaring excess gas that cannot be consumed on the Monopod Platform for fuel prior to AOGCC's pending approval of required metering systems.
- (2) - (4) Geologic and Engineering Characteristics; Prior and Current Exploration & Development Plans: On June 26, 2013, Hilcorp gave a detailed geologic and engineering presentation to DNR regarding the merits of Hilcorp's proposal to unitize the Trading Bay Field leases. This presentation included an in-depth review of prior exploration activities at both the Trading Bay Field and Trading Bay Unit (aka MacArthur River Field) and Hilcorp's current plan for exploration and re-development of both fields under a consolidated - rather than segmented - Plan of Exploration/Development. A copy of this confidential presentation slide deck is attached hereto as Exhibit A.
- (5) Economic Costs and Benefits to the State: DNR has an obligation to protect the public's interest in maximizing the economic and physical recovery from the State's oil and gas resources. Hilcorp's proposal is designed to promote efficient exploration and development of multiple leases overlying common reservoirs or closely situated reservoirs existing within the current boundaries of both the Trading Bay Field and Trading Bay Unit. Hilcorp's proposal will also eliminate unnecessary and duplicative facilities that otherwise would be required to test, process and meter recently discovered gas from the Monopod Platform before it reaches the Trading Bay Production Facility. Further, incorporation of the Monopod Platform's leased-based operations into the Trading Bay Unit will immediately reduce

DNR's burden of administering separate Plans of Development for both the Trading Bay Unit and the Trading Bay Field.

- (c) Other relevant factors: As detailed above, Hilcorp's proposal will encourage continued assessment of oil and gas resources while minimizing the impact of ongoing and future exploration, development, production and transportation activities.

Hilcorp's role as both 100% working interest owner and operator of both the Trading Bay Unit and the Trading Bay Field are significant factors that must be considered in favor of the proposed unitization concept. Likewise, the **State of Alaska is the sole royalty owner – and there are no other affected parties.**

Perhaps most importantly, Hilcorp's proposal will have no negative impact on royalties that otherwise would be paid to the State of Alaska. Rather, DNR's expedited approval will promote efficient exploration and development of the Trading Bay Field leases, including the accelerated production of recently discovered gas from the Monopod Platform on a unitized basis (currently shut-in due to AOGCC metering requirements).

CONCLUSION

Hilcorp respectfully requests DNR expedite consideration of its proposal to subscribe the Trading Bay Field leases into the Trading Bay Unit under 11 AAC 83.328(b). In connection with this proposal, please see the attached proposed revisions to the Trading Bay Unit Exhibits A and B.

In the event that DNR rejects this method, Hilcorp will immediately make payment of the application fee required by 11 AAC 83.306(6) and will supplement this application as may be necessary to conform with applicable regulations associated with routine unit expansion.

Please note: no substantive changes to the current Trading Bay Unit Agreement or Trading Bay Unit Operating Agreement are required. See 11 AAC 83.306(1)-(2). Likewise, Hilcorp's proposal does not affect any third parties, making the otherwise routine public notice required by 11 AAC 83.311 unnecessary.

Finally, Hilcorp has recently submitted the proposed Plan of Development for the Trading Bay Field and Trading Bay unit under separate cover. Hilcorp respectfully requests DNR to administrative combine these separate filings for review and consideration as the proposed 2013 Plan of Exploration/Development for the Trading Bay Unit.

Should you have any questions regarding the merits of this proposal, please do not hesitate to contact me directly at 777-8379 or David Duffy at 777-8414.

Sincerely,

HILCORP ALASKA, LLC

A handwritten signature in black ink, appearing to read "Kevin A. Tabler", written over the printed name.

Kevin A. Tabler
Land Manager

Enclosures:

- June 26, 2013 Technical Presentation (Confidential)
- Proposed Trading Bay Unit Exhibits A and B